



The Texas Competitive Electricity Market

Illinois Commerce Commission
Chicago
June 23, 2004



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Overview of Electric Competition



Electric competition in Texas

- Wholesale and retail competition
- PUC roles in competitive markets
- Results



Key Competitive Market Design Features



- **Competition at retail and wholesale**
- **Bilateral wholesale market**
- **Neutral organization**
 - transmission access, settlement, reliability, customer registration
- **Unbundling of retail sales from distribution**
- **Single bill provided by retailer**
- **Standardize--create big market**



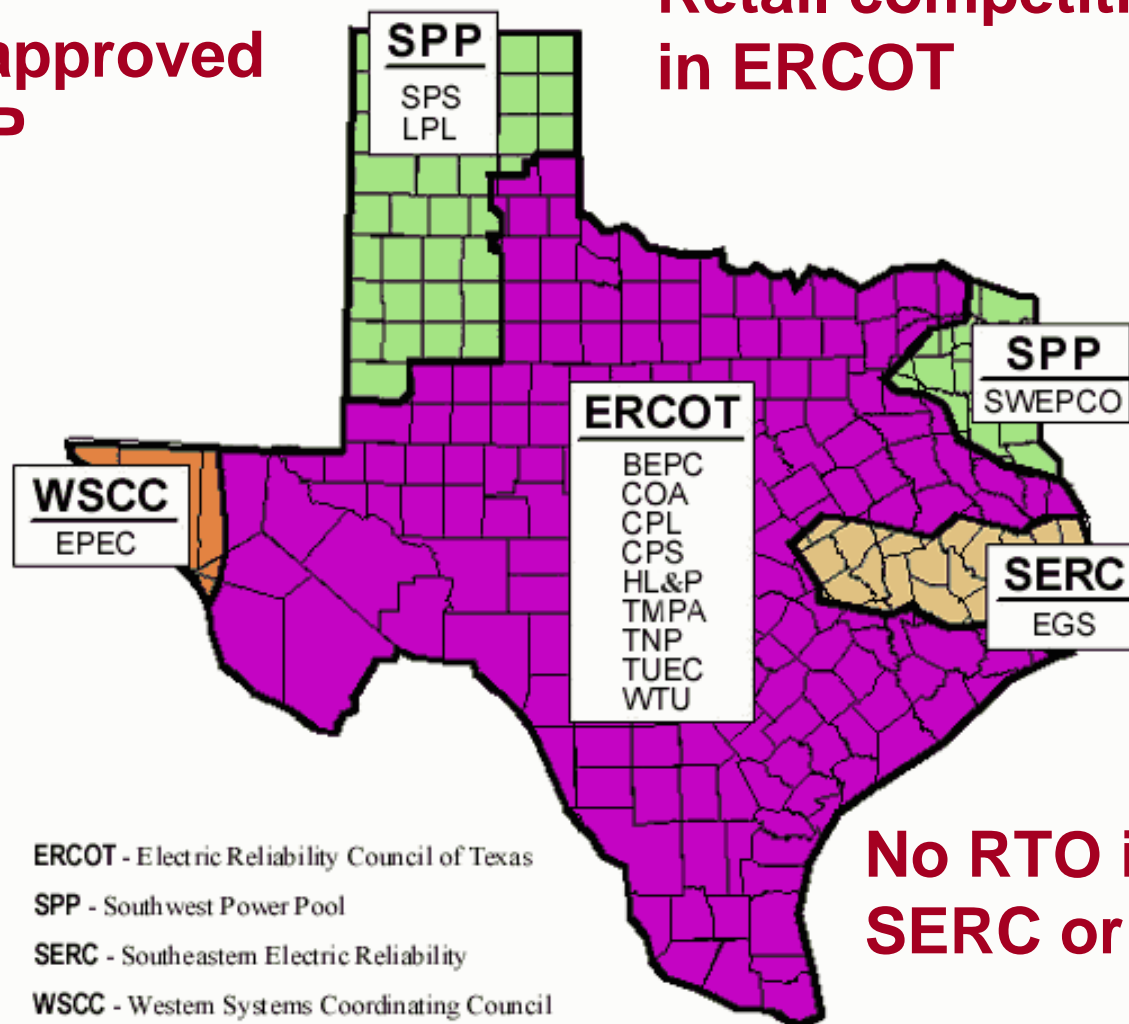
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The Texas Electric Map



RTO approved
in SPP

Retail competition
in ERCOT

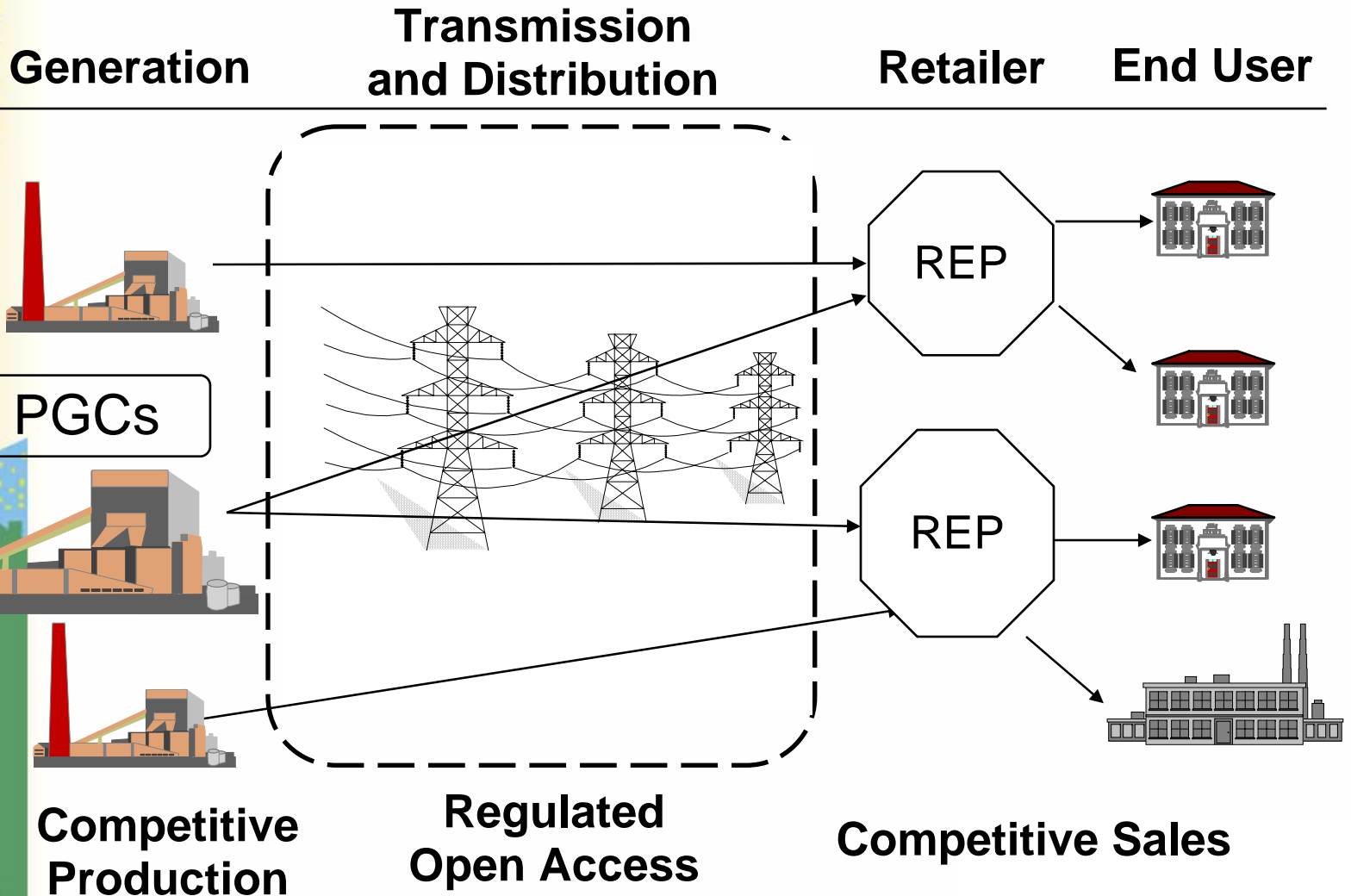


No RTO in
SERC or WECC



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Texas Electric Competition



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Wholesale Competition in ERCOT



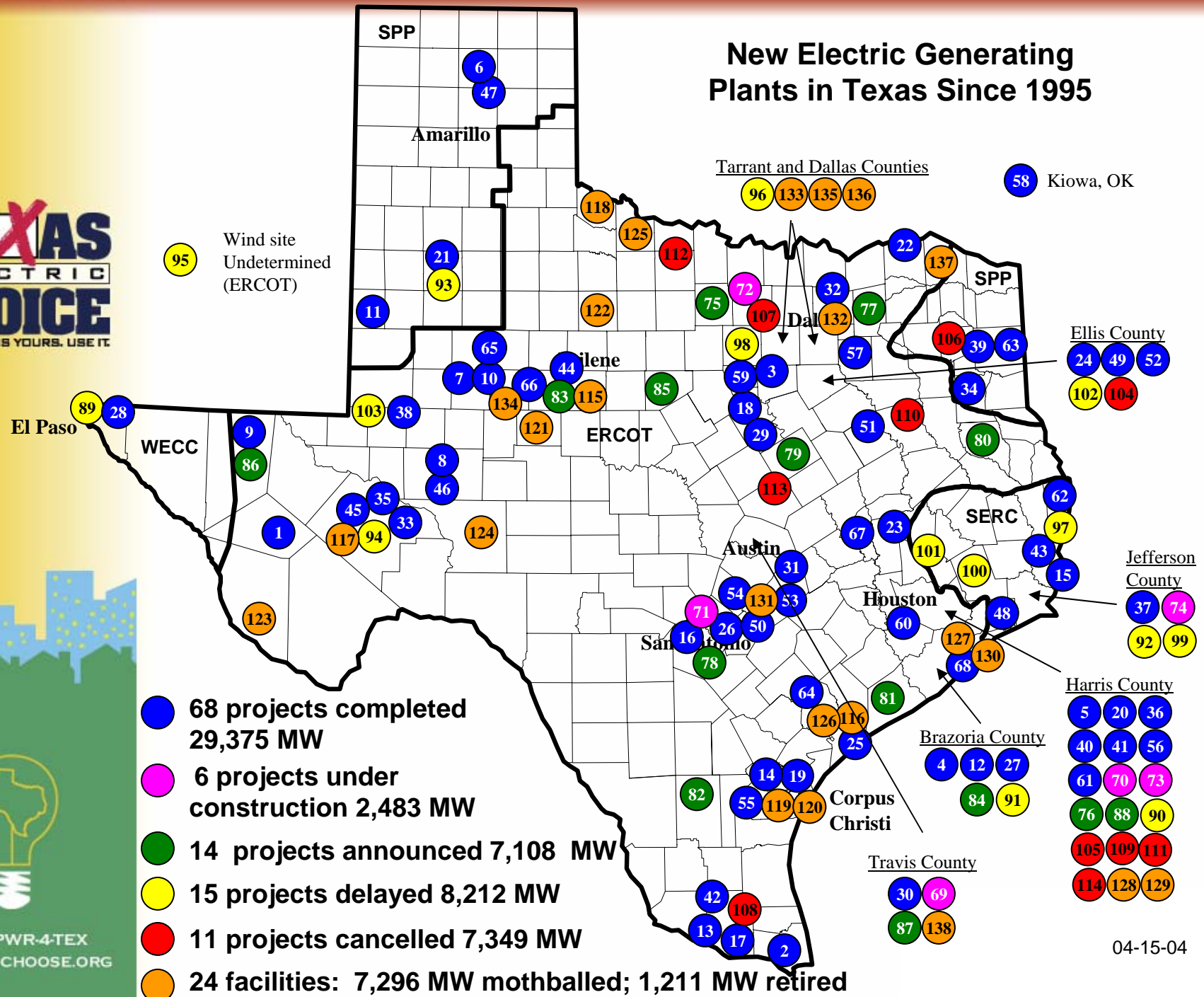
- PUC regulates rates and terms for access to transmission system
- Regional transmission rates
- ERCOT is responsible for transmission access and reliability
- Bilateral energy market
- ERCOT operates markets for reliability services—balancing, regulation, reserves
- Market-based congestion management



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New Electric Generating Plants in Texas Since 1995



Retail Competition



- Retail competition began in ERCOT January 1, 2002
- Investor-owned utilities required to offer customer choice
- Municipal utilities and cooperatives decide on competition
- When market opened, incumbents had most of customers
- Key concept is price to beat offered by incumbent



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Price to Beat (PTB)



- Default service for non-choosing customers
- Incumbents' price for small customers controlled
- New REPs not subject to controls
- Prices for large customers not controlled
- Price to beat allows new REPs to offer lower prices than affiliated REP
- Purposes of PTB
 - Price protection for small customers
 - Allow new REPs to gain customers
 - Allow all REPs to adjust retail prices based on changes in wholesale prices



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Price to Beat



- Available until January 1, 2007
 - **Affiliated REP can offer lower prices in Jan. 2005 or when loses 40% of customers**
- PTB rates generally 6% less than January 1999 rates, adjusted for fuel costs
- Fuel portion of PTB rates can be adjusted twice a year for changes in natural gas futures
 - **Requires PUC approval**



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PUC Roles in Wholesale Market



- Rates and terms for wholesale transmission service
- Oversight of ERCOT
- Market design
- Market monitoring and reviewing market power
- Fostering development of wholesale markets outside of ERCOT



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PUC Roles in Retail Market



- Revisions to price to beat
- Delivery rates and terms
- Customer protection
- Licensing of retail electric providers and aggregators
- Monitoring activities of retailers; enforcement
- Developing retail markets outside of ERCOT

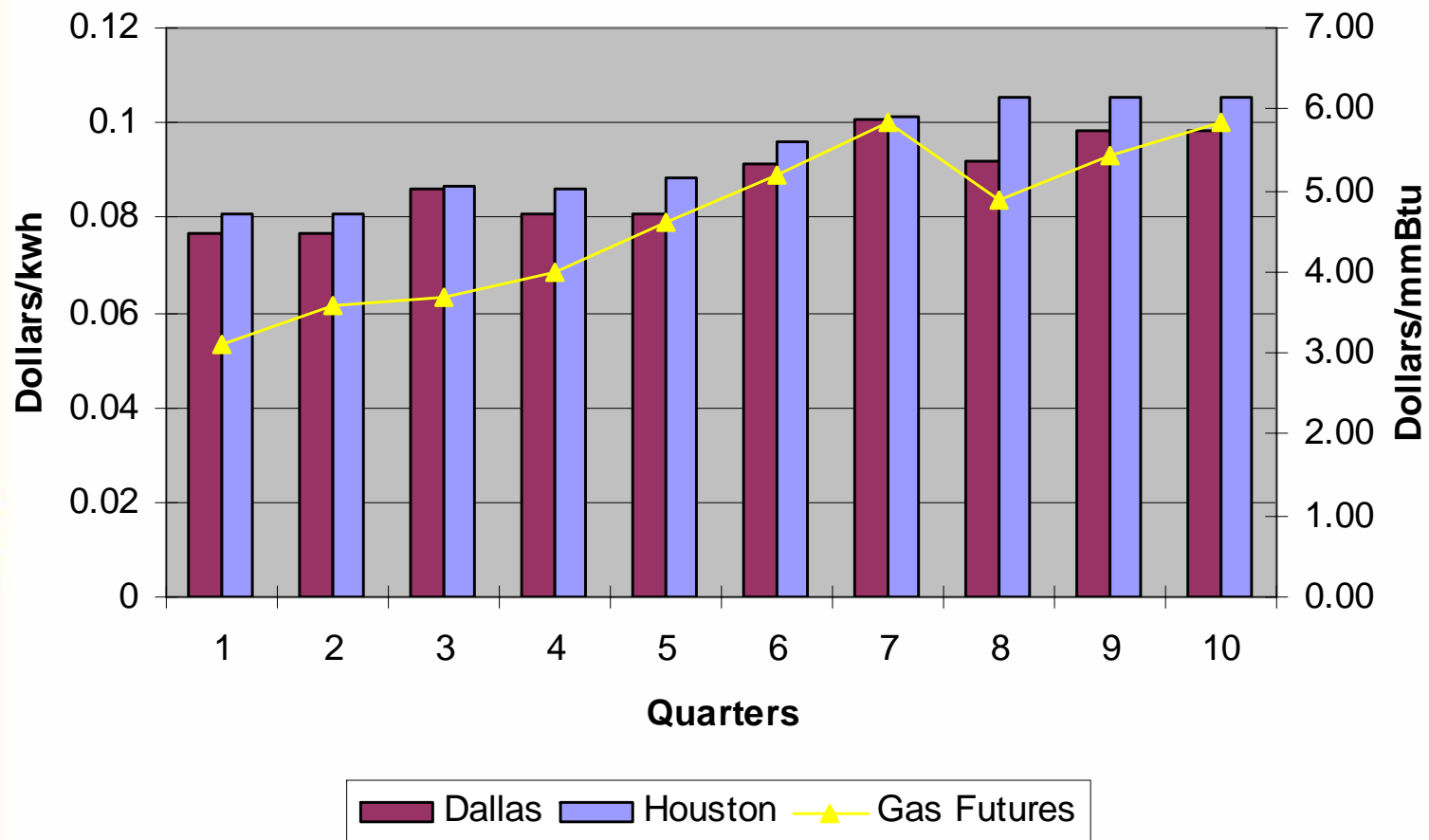


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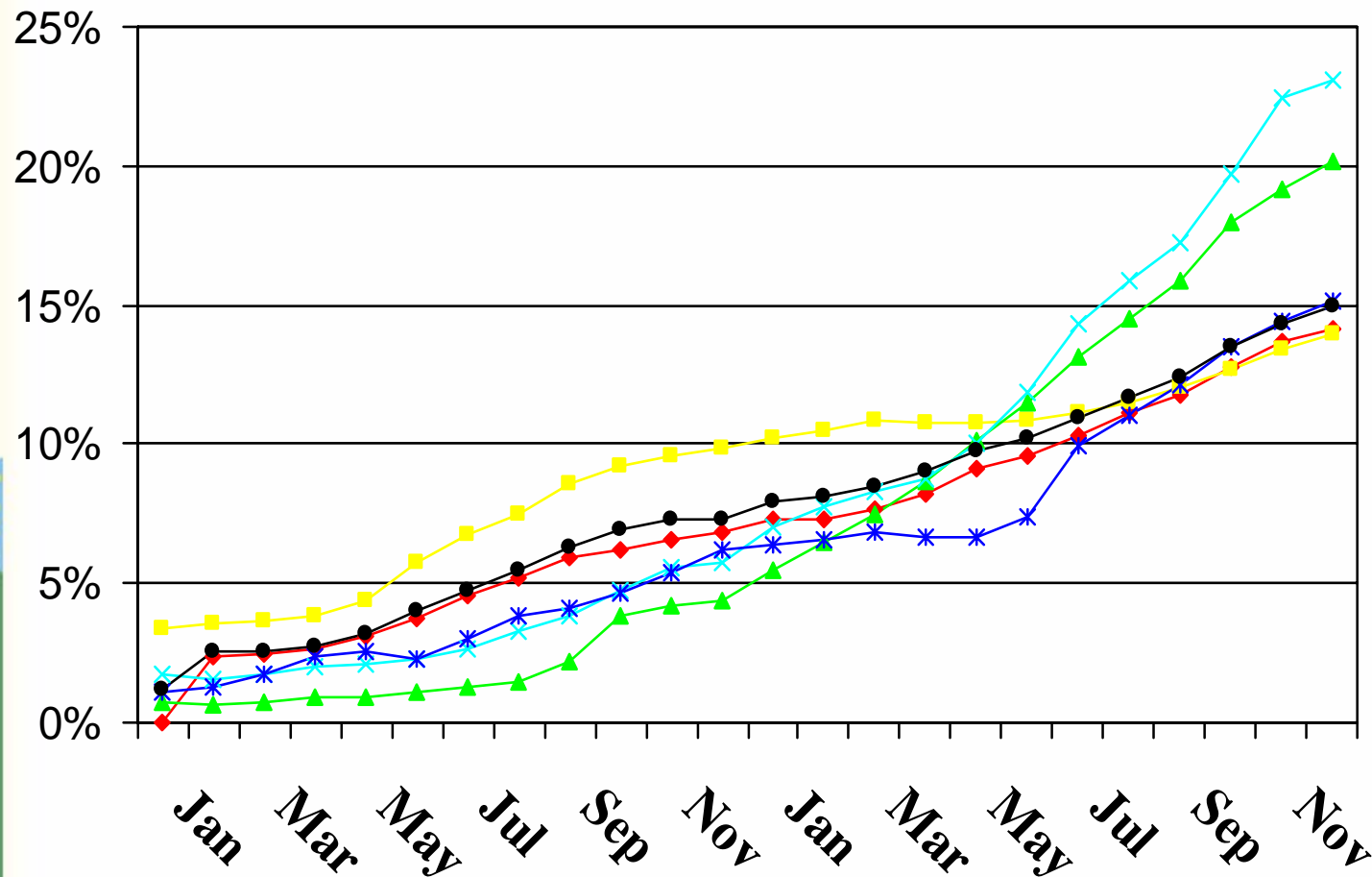
Residential Price to Beat and Gas Prices



Residential MWH Sales by Competitive REPs—2002 & 2003



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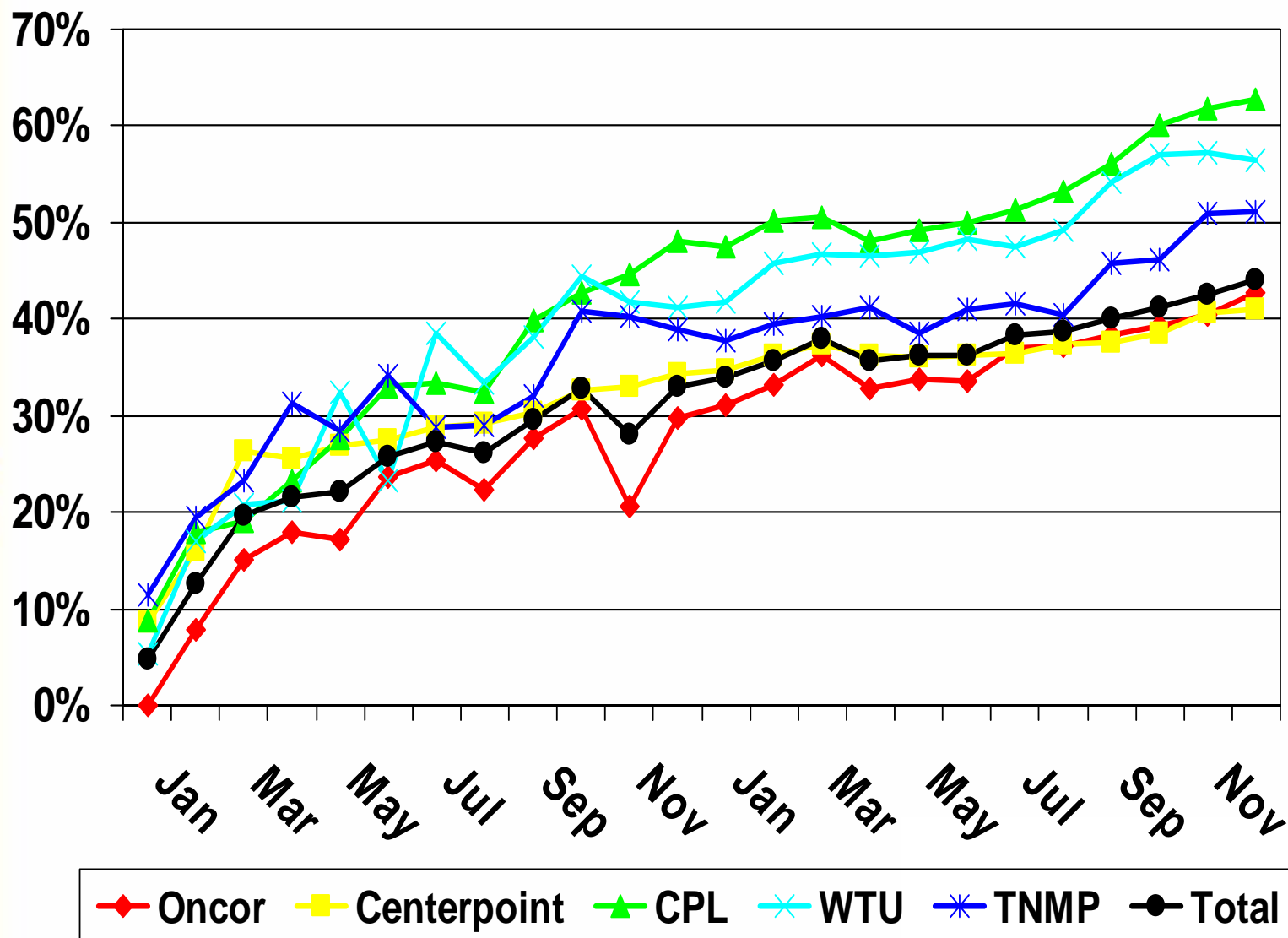


◆ Oncor
 ■ Centerpoint
 ▲ CPL
 × WTU
 ✱ TNMP
 ● Total

Commercial Megawatt-hour Sales by Competitive REPs—2002 & 2003



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Three Tiers of Retail Providers



Meters Served	REPs	% of Total	% of Res.	% of Small Bus.	% of Large Bus.
> 100 k	6	94%	96%	87%	22%
10 k to 100 k	7	5%	4%	10%	36%
< 10 k	55	1%	1%	3%	42%

As of end of 2003



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For More PUC Information

- Statute—PURA 2003 Ch. 39
 - www.puc.state.tx.us/rules/statutes/index.cfm
- Regulations—Subst. Rules Title 25
 - www.puc.state.tx.us/rules/index.cfm
- Report card
 - www.puc.state.tx.us/hot_topics.cfm



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